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July 27, 1961

MEMORANDUM FOR MR. ROSTOW

SUBJECT: The Character of the Differences Over the Implementation
of the Staley Report

I have given you orally the information I have on the status of work on the Staley Report. I will not attempt to reproduce that information in this memorandum. However, I thought it would be useful to summarize the character of the argument over the Staley Report as I have listened to it in the Task Force discussions and in private conversations with Task Force members.

ICA note at end

These differences described here should not be assumed to represent firm agency positions. Moreover, Cottrell now appears to be following a strategy of handling the problem outside the task force proper, thus bypassing some of those whose views are set forth below by appealing to higher levels. In particular, the aid questions, as I have indicated to you, are being handled by Mr. Ball and Jack Bell rather than directly by the ICA desk and office. Despite all this, the statement of differences below has, I believe, some value in illustrating the character of the real problems involved.

State-Defense-JCS Views

The State-Defense-JCS views are relatively simple. They run to the general effect that, while the Staley Group did not accomplish all that we might have hoped for, it did accomplish a number of important things. These achievements provide an adequate basis for the U.S. to proceed with the various aspects of the proposed program. Moreover, we ought to capitalize on the improved atmosphere by moving ahead rapidly and using this atmosphere to obtain further action by the Vietnamese (beyond that provided for in the Staley Report itself) without, however, making our action conditional upon such further Vietnamese action. In response to my question, Ben Wood listed the major accomplishments of the Staley Mission as follows:

a. The agreement on de facto devaluation. Ben confirmed to me what Mr. Staley had said to you--that subsequent to the return of the State member of the Special Financial Group to Washington (whose oral report I heard in the Task Force), there was agreement by Diem on a unitary rate. This will take the form of a straight

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across-the-board 25-piaster-to-the-dollar duty on all imports which, when added to the official exchange rate of 35 to the dollar, gives a rate of 60 piasters to the dollar. Particular duties for particular imported items will be imposed on top of this 25-piaster duty.

b. The agreement to criteria to govern imports under the commercial import program. Everyone seems to agree that this is in advance.

c. The acceptance by the GVN of the desirability of short range economic impact programs.

d. The agreement to set up U.S. and Vietnamese special committees to provide for parallel consultation between the U.S. and the GVN on the Staley program.

e. A contribution to the continuing improvement in relations between U.S. and Vietnamese Governments which has been going on in the past six months and which is creating a cooperative atmosphere in which we are getting better action from the Vietnamese on various matters.

Accordingly, these agencies taking this view would have the U.S. make definite commitments with respect to the 30,000-man increase and with respect to the commercial import program which would support this military increase and would provide general support to the Vietnamese budget and balance of payments. These agencies recognize, however, that before we can move ahead on both the short and long range economic programs we do need to develop, in consultation with the Vietnamese, much more specific project statements. ✓

Budget-ICA Views

The views set forth below are based upon conversations with Budget and ICA people. Both have a similar attitude toward the Report but not all of the particular views expressed below are necessarily jointly shared.

The view of Budget and ICA is that we got relatively few concessions from the Vietnamese in the Staley Report. We ought to insist upon much more in the way of political and economic action by Diem as a condition for additional aid.

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We have only a unilateral Vietnamese estimate of commercial import requirements which is far above anything we can foresee that the Vietnamese can absorb. The proposed increase of \$74 million in commercial import assistance (difference between ICA estimate of \$95 million and GVN estimate of \$169 million) is, if provided, likely only to go into increased foreign exchange reserves and high living among the elite of the cities. Thus, it will only aggravate the political and economic problems of Vietnam. We need to put real pressure on the Vietnamese to increase their own level of effort and to reduce the scale of consumption in the cities.

There is a serious question as to whether the Vietnamese themselves are prepared to make the level of effort required to carry out the various proposed programs. It has been characteristic that the GVN has not used all of the project aid money that we have been prepared to make available. Thus, in FY 1961, \$35 million was programmed for project aid to Vietnam but only \$8 million was actually utilized; the balance was reallocated at the end of the fiscal year to other programs. Taking more specifically the proposed program in information and communications, this is a program for which the Vietnamese are still using FY 1957 money. ICA claims that the Vietnamese already have enough funds to finance for the next year and a half the radio network which they are building and for which assistance is proposed in the Staley Report.

ICA does not question the value of the various programs included in the emergency action program. On the contrary, it agrees in general that all of them are desirable (though it is not altogether clear about what is involved in the "Youth Corps" training project). One of the puzzles, however, is the extent to which the proposals in the Report are really additional to what is included in existing or planned programs. The information and communications project, as indicated, is believed to be already adequately financed. Further, provision is made in the Congressional presentation according to ICA for support of a rural medical program. The other three items (agrovilles and land development, training of lower and middle level administrators and training of the Youth Corps) are new. There is, however, a question about the extent to which these projects might be covered by existing financing. In general, it is ICA's view that no projects have ever gone undone for lack of money in Vietnam; that the problem has always been lack of support by the Vietnamese themselves.

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Budget also questions whether we have made an adequate analysis of the requirement for the additional 30,000 men. It questions whether we have made determination of whether the Vietnamese economy can bear the burdens involved. In particular Budget raises the question, basing itself upon an ICA manpower study, whether such an increase will not increase the political and economic problems in Vietnam by drawing essential personnel such as doctors away from the civilian economy. (State points out that the ICA study acknowledges that the data on which it is based are inadequate; agrees that the study overdraws the picture; and suggests that there is positive political value in drawing doctors into the military where they can be employed, if an appropriate civic action program is initiated, in villages to which they would not otherwise go.) Budget also wonders whether the military buildup is likely to proceed at the speed projected by the Vietnamese.

A Summing Up

In general the Budget and ICA people are inclined to place more stress than the others on pressing Diem for political and economic reforms and conditioning ^{additional} aid upon more action upon such reforms. They stress the need for an increased effort by the Vietnamese if any of these programs are to succeed. They have great difficulty accepting the validity of the estimates in the Staley Report and therefore great difficulty in endorsing them. They are generally inclined to be very skeptical on the basis of past experience as to the prospects of getting reforms out of Diem on the basis of an approach which emphasizes the need for developing a spirit of cooperation. They are inclined to believe rather that we can only get action if we use the pressures available to us through the aid program. ✓

State-Defense-JCS are more inclined to emphasize the overwhelming importance of the military threat, the need to give reassurance to Diem that we are behind him and the belief that we can best achieve many political and economic reforms, not by specific conditions on our aid, but by creating an atmosphere of cooperation and confidence. They recognize the problems inherent in the estimates in the Staley Report but believe that for psychological reasons we need to endorse the report as far as we possibly can now and get on with the refinement of the estimates as a later step.

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It needs to be emphasized that the total increase proposed by Staley, if we accept the Vietnamese estimate of commercial import requirements, is not the \$85 million listed on p. 19 of the report, but approximately \$159 million. The commercial import program is not included in the \$85 million figure so far as I can determine. I hope to receive the results of ICA's effort to reconcile the Staley report's figures with the Congressional presentation.

BA

Robert H. Johnson

Note: I have just been informed by Ben Wood that Dr. Fitzgerald (ICA) has agreed that we can endorse both a commercial import program and emergency economic aid in principle, without, however, endorsing the figures included in the report.

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